



Wake Me Up...When September Ends

Yesterday's 2.96% decline for the S&P 500 was the worst start (first trading day of the month) to a month of September since 2002 when the index fell 4.15% on September 3rd. September is historically the worst month of the year for the equity market, with an average decline of roughly 1% for the S&P going back to 1928. But when September starts off poorly, are the rest-of-month numbers even worse? From the looks of it, yes.

At right is a look at all 1%+ declines on the first trading day of September for the S&P going back to 1928. For each event, we include the index's performance for the remainder of September and for the remainder of the year. As shown, following 1%+ down days to start the month, the S&P has averaged a decline of 2.21% for the remainder of the month with positive returns 40% of the time. The median rest-of-month return is only slightly better at -1.88%. The rest-of-year returns are not great either, with an average change of -0.04% and a median change of +1.43%.

In yellow we have highlighted years where September started off with a 1%+ decline after the index fell in August as well. You'll notice that the rest-of-month returns following these occurrences are even worse, with gains seen just twice and declines seen six times. In 2011, the S&P fell 5.68% in August and then 1.19% on the first day of September. The S&P fell another 6.06% for the remainder of that month, but it was actually up 4.42% for the remainder of the year, so the market saw a huge rally from October through December.

Our note last week about the S&P's 50-day moving average dropping below its 200-day moving average (the "Death Cross") showed that the one-month performance following these "breakdowns" was negative. But over the next three and six months, returns are very favorable. The "Death Cross" combined with weak seasonals suggests that September could be painful, but we'd be looking for buying opportunities on further weakness as long as our economic analysis continues to suggest that we'll steer clear of recession.

| S&P 500 1%+ Declines to Start September | | | | |
|---|--------------|----------------------|-------------------|------------------|
| Date | August % Chg | 1st Day of Sept. (%) | Rest of Sept. (%) | Rest of Year (%) |
| 9/1/37 | -4.35 | -2.68 | -11.85 | -32.42 |
| 9/1/38 | -2.19 | -1.16 | 2.68 | 10.23 |
| 9/3/46 | -7.29 | -6.73 | -3.67 | -1.48 |
| 9/1/59 | -1.50 | -1.22 | -3.38 | 1.73 |
| 9/3/74 | -9.03 | -2.26 | -9.90 | -2.78 |
| 9/2/75 | -2.11 | -1.61 | -1.88 | 5.51 |
| 9/4/79 | 5.31 | -1.72 | 1.75 | 0.47 |
| 9/1/82 | 11.60 | -1.05 | 1.84 | 18.93 |
| 9/4/84 | 10.63 | -1.08 | 0.74 | 1.43 |
| 9/2/86 | 7.12 | -1.74 | -6.92 | -2.56 |
| 9/1/87 | 3.50 | -1.94 | -0.49 | -23.60 |
| 9/1/88 | -3.86 | -1.21 | 5.25 | 7.50 |
| 9/3/02 | 0.49 | -4.15 | -7.15 | 0.21 |
| 9/1/09 | 3.36 | -2.21 | 5.92 | 11.73 |
| 9/1/11 | -5.68 | -1.19 | -6.06 | 4.42 |
| 9/1/15 | -6.26 | -2.96 | ? | ? |
| Average | | | -2.21 | -0.04 |
| Median | | | -1.88 | 1.43 |
| % Positive | | | 40% | 67% |